

**Original citation:**

Mole, Kevin, Hart, Mark and Roper, Stephen. (2014) When moving information online diminishes change : advisory services to SMEs. *Policy Studies*, 35 (2). pp. 172-191.

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## **When Moving Information Online Diminishes Change: Advisory Services to SMEs**

### **Abstract**

Small firms perform poorly. How to support SMEs effectively has occupied policymakers for decades. Previous work suggests weak competition as a cause of ‘the problem’. Therefore, the means of delivering support matters little. Accordingly, the government moved support online rather than be delivered in face-to-face exchanges between advisers and clients. However, we suggest adopting internal management practices to build capabilities does require face-to-face contact, so practices diffuse in a pattern like an ‘epidemic’. In support a multinomial logit model of 1334 cases of advice found SMEs that took advice to enhance internal management practices were more likely to be referred by other firms. Hence, we argue that moving online diminished change within these SMEs.

### **INTRODUCTION**

In 1947, the U.S. State Department sent Dr. W. Edwards Deming, the creator of the Total Quality Management (TQM) philosophy, to Japan in an effort to re-invigorate their war-ravaged economy. Japan's ailing manufacturing firms embraced Deming's TQM programs enthusiastically. Importantly, an army of acolytes teaching Deming's TQM are credited with instilling a devotion to quality and productivity in Japanese industry enabling the country to dominate the global economy in the 1980s. Did the technique sweep the board or was it the army of acolytes that championed the TQM quality message that mattered?

Today in England, face-to-face advisory support to small firms has been curtailed in favor of provision from the internet (Hesse 2010). Mark Prisk, the business and enterprise minister, explained: “We can deliver a lot more online and make better use of the private providers. The vast majority of private businesses don't use public services [for advice]. We need a 21st century approach to business support.” The assumption that support can be delivered on-line implicitly argues for the primacy of the message over the delivery mechanism; yet different types of advice might require different communication media; (Webster and Trevino 1995). A critical understanding of this process (Warhurst 2008, Lawless 2012, Li, Segarra Roca and Papaoikonomou 2011) directly speaks to policy concerning the productivity and performance of smaller firms (Chandler and Hanks 1994,

Mahto et al. 2010, Hanlon and Saunders 2007, Snape and Redman 2010, Bloom and Van Reenen 2007)

In examining how advice spreads, we distinguish between internal (process) advice such as Information Systems consulting (Branzei and Vertinsky 2006, Damanpour and Schneider 2006, Wischnevsky, Damanpour and Mendez 2011, Cepeda-Carrion, Cegarra-Navarro and Jimenez-Jimenez 2012) and external-facing change such as marketing (Wischnevsky et al. 2011). Changes to internal processes can be distinguished from more external facing in several ways. First, internal processes build capability; whereas external facing processes use extant capabilities (Branzei and Vertinsky 2006). The triggers for building capacity is a critical problem for entrepreneurship research (Autio, George and Alexy 2011). The advice to support internal processes has to delve more deeply within the firm to assist internal changes (Cepeda-Carrion et al. 2012); whereas the advice that supports external change has to understand the market environment (Wren and Storey 2002). Second, programs that build on the extant capabilities of the firm, such as training or for marketing are more likely to be routinized (Lambrecht and Pirnay 2005, Boter and Lundström 2005, Branzei and Vertinsky 2006). A marketing plan may differ according to the type of industry and strategy but it has certain routinized features which may be codified (Chrisman and McMullan 2004). When one turns to the type of advice that builds capacity then the issue becomes one of how managers incorporate management practices in their firms (Knockaert et al. 2011). Third, adopting an internal management practice may involve higher risks than a change that is externally-focused like adopting a new sales and marketing plan (Singh, Tucker and House 1986, Carroll 1993, Carroll and Hannan 2000). Internal change disrupts routines, undermines relationships, and requires learning; therefore it lowers reliability (Amburgey, Kelly and Barnett 1993, Singh et al. 1986). Small and new firms can deal with uncertainty by taking small steps (Johanson and Vahlne 1977) but managers who adopt a management practice successfully embraced it wholeheartedly (Mole et al. 2004). Hence, differences between changes to internal processes versus changes to external processes are reflected in capabilities (building capabilities versus using capabilities), the routinization of advice, and by the risks associated with it.

This notion of the increased risk from internal change has its basis in the evolutionary views of the firm (Nelson and Winter 1982, Carroll and Hannan 2000, Aldrich and Ruef 2006, Breslin 2011, Breslin 2012). First, it is argued that internal change is based upon competition between competences (McKelvey 1982) or routines (Nelson and Winter 1982, Aldrich and Ruef 2006, Alvarez and Barney 2007, Breslin 2011, Breslin 2012). Next, work has distinguished between changes to the core processes of the firm and changes to the non-core (Singh et al. 1986, Carroll 1993, Carroll and Hannan 2000), where core parameters of a business are its mission, its authority structure and its technology (Hannan and Freeman 1984). Further, these changes subject an organization to a greater risk of 'death' (Hannan and Freeman 1984, Singh et al. 1986, Carroll 1993, Carroll and Hannan 2000). Therefore, our argument is that advice that builds capability potentially represents a core change incurring heightened risk to the organization's survival whereas advice that uses extant capabilities such as training or marketing advice presents fewer risks.

Using a multinomial logit model of 1,334 cases of business advice to small firms collected in England in 2007, the study found the receipt of advice to build capability from a publicly funded advisory service was positively related to referrals from other firms. This is also the case when that advice was part of a wider package of assistance involving both internal and external aspects. Only when firms took advice that used extant capabilities did they rely on the internet. Therefore, when the internet is privileged over face-to-face advice the changes made by each recipient of advice are likely to diminish causing less impact from advice within the economy. In an era when small firms are the engine of growth this is bad for growth. It implies that fewer firms will adopt the sorts of management practices that would improve their productivity. This also contributes to theory on advisory processes by pointing out a false dichotomy between intervention and network approaches.

The next section outlines the literature on business advice. It suggests the empirical findings that we would expect from our conceptualization of the way in which types of support impact on the business. Section three, outlines the data used in the model. Section four presents the results of the multinomial logit model designed to reflect the

nature of the advisory process. In section five, these results are discussed, before the paper concludes in section six.

## **LITERATURE REVIEW**

### **The case for SME advisory services**

Economic growth and the recovery from the crisis depends on how SMEs perform (Li et al. 2011). Most SMEs represent the indigenous economy (Andreosso-O'Callaghan and Lenihan 2011), with commentators casting envious eyes on Germany's Mittelstand companies and their export-led growth. Most SMEs do not live up to such billing; however, r(Andreosso-O'Callaghan and Lenihan 2011)policymakers have long sought ways to deal with the perceived long-tail of underperforming small firms (Commission et al. 1997). High performing SMEs adopt up-to-date management techniques argue researchers (Bloom and Van Reenen 2010). Of course, management practices are only adopted by practicing managers. Hence, the attractive benefits may accrue from a policy to develop SME managers and build their firm's capability

Although many economists believe competition drives companies to adopt capability building techniques, such as management practices (Bloom and Van Reenen 2010), evidence on the impact of competition is equivocal (Uzzi 1997, Nickell 1996, Thesmar and Thoenig 2000). Competition does not force the least productive firms to exit (Gimeno et al. 1997) nor is perceived competition the main reason firms gave to adopt new practices (Mole et al. 2004). At best, competition is perhaps a blunt instrument; not a panacea to encourage firms to build capability.

If competition may not work as expected, another option is to intervene directly. If the benefits of advice do not accrue equally to firms, advice becomes hard to value. Therefore managers take less advice which can be seen as a partial market failure to justify intervention (Bennett 2008, Storey 2003). In addition to supporting a national Manufacturing Advisory Service (MAS) to spread best practice initiatives (Done et al. 2011), in 2005, the UK government also spent approximately £300m through its Business

Link programme<sup>1</sup> (Mole et al. 2008). The UK government encouraged Business Link to improve SME productivity through a mechanism designed to build capability through enhanced management practices (Bloom and Van Reenen 2007, Bloom and Van Reenen 2010).

Programs cannot impose management practices on firms because the endorsement and enthusiasm of managers is critical to their success (Damanpour and Schneider 2006). One approach has been to develop standards, where the reputation effects of a standard fuels the widespread adoption of management practices (Honig and Karlsson 2004, Robertson, Swan and Scarbrough 2003); yet adopting a badge is not identical to adopting the management practice wholeheartedly, which is necessary to reap the full benefits from adoption (Damanpour and Gopalakrishnan 2001). Hence, standards are no panacea either, although government programs can increase the supply of advice which demonstrate their potential benefits (Done et al. 2011, Mole et al. 2011). Nonetheless, managers must find reliable information on the benefits of advice to build capability (Ozgen and Baron 2007). We know that managers avoid malfeasance through their ties to others (Granovetter 1985). Hence, information pathways connect to taking advice (Bennett and Robson 2004, Mole et al. 2008, Kautonen et al. 2010).

#### **Advice that builds capabilities versus advice that uses extant capabilities**

The paper distinguished between advice that builds capability and advice builds on extant capabilities (Branzei and Vertinsky 2006). The difficult task of building capability in SMEs is arguably the key to long-term sustainable advantage. In the evidence presented advice that builds capability is advice that focused on quality, cost, ICT or R&D. Although this is not an exhaustive list of capability building, all these aspects focused on internal aspects of the firm and quality and cost are elements that disrupt routines

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<sup>1</sup> Business Link operated in England. Scotland and Wales had their own counterparts, Scottish Enterprise and Business Connect respectively Mole, K. F. & W. Keogh (2009) The implications of public sector small business advisers becoming strategic sounding boards: England and Scotland compared. *Entrepreneurship and Regional Development*, 21, 77-97.. Business Link ended their face-to-face provision of business advice in November 2011.

(Amburgey et al. 1993, Singh et al. 1986). Moreover, information systems are often seen as a precursor to innovation capability (Cepeda-Carrion et al. 2012). Advice that builds capability is cumulative, requires persistence and delves more deeply within the firm (Brunet and New 2003). Done, Voss and Rytter (2011) in eight comparative case studies of the impact of a Manufacturing Advisory Service (MAS) intervention in the UK found only one of their companies persisted with the intervention beyond the lifetime of the external assistance; nevertheless, work on adopting management practices highlights ongoing benefits that persist (Ichniowski et al. 1997, Bloom and Van Reenen 2007, Døving and Gooderham 2008).

On the other hand, marketing advice helps firms to use their extant capabilities more effectively in the marketplace (Wren and Storey 2002, Lambrecht and Pirnay 2005, Boter and Lundström 2005, Branzei and Vertinsky 2006). It might also be expected to be routinized. Whilst each marketing plan may differ by industry and strategy, it has certain routinized, codified features (Chrisman and McMullan 2004). Actually, the evidence that advice on some extant capabilities, like training, translates into firm performance is weak (Storey 2004). Since training is individual, it does little to disrupt routines or change existing custom and practice (Edwards and Ram 2006); therefore, the threat to the firm from taking advice using extant capabilities was simply that it was ineffective (Storey 2004).

There are large uncertainties associated with advice: its quality (Bennett 2008), its impartiality (Bennett and Robson 2004) but particularly with respect to advice that builds capabilities. For example, the benefits from adopting a new practice are unevenly distributed because the capability of the firm and whether it possesses complementary assets is critical to the outcome (Mole et al. 2004, Powell 1995, Damanpour and Schneider 2006). To deal with uncertainty small and new firms can take ‘small steps’ (Johanson and Vahlne 1977) but many management practices require to be adopted wholeheartedly (Mole et al. 2004). This means that the small firm owner has to be convinced that he or she will benefit from adopting the practice (Powell 1995, Damanpour and Schneider 2006).

In addition, building capability like adopting lean manufacturing, may involve higher risks than a change that is externally-focused like adopting a new sales and marketing plan. In developing organizational ecology, Hannan and Freeman (1984) argued that change to the core parameters of a business: its mission, its authority structure, its technology, subject an organization to a greater risk of closure. Internal capability building change had harmful side effects because it disrupted routines, undermined relationships, required learning and therefore lowered reliability (Amburgey et al. 1993, Singh et al. 1986). Therefore, the adoption of advice that builds internal capability may offer a greater threat to the organization's survival than the change in an external practice such as marketing.

Table 1, taken from Mole et al. (2008) shows that the sources of information about the Business Link offer in England are critical to estimate the probability that a firm receives assistance. There were three popular channels to discover Business Link (BL). The most likely way for a small business owner to find information about Business Link was to receive a BL mailshot. The next most likely way to find information about Business Link was to visit the website. The third most likely way to find information about Business Link was to be referred by a contact. The default way to learn about BL advice was through the (targeted) mailshot; however, our hypothesis suggests that mailshots would not transfer enough knowledge for advice that built capability.

### **Hypothesis**

*Hypothesis: Firms that are seeking more tacit bespoke advice to build capabilities are more likely to seek word of mouth referrals from other businesses.*



**Table 1. Probit model of the probability of receiving ongoing assistance.**

Variables	coefficient	t-statistic	dy=dx
Business Link (BL) information			
BL mailshots	1.570*	16.640	0.567
BL website	1.227*	10.800	0.447
BL direct contacts	0.911*	7.380	0.340
BL referred by friend	0.349*	2.410	0.136
BL referred by adviser	1.175*	4.500	0.383
Constant	1.762*	8.540	
N	2136		
Log likelihood	-553.88		
Chi-squared	854.68		
Pseudo R2	0.6259		

Source Adapted from Mole, *et al* 2008

\* Indicates a statistically significant difference at the 5% level.

Notes: models also include, firm characteristics, management team composition and a set of fifteen industry dummies (not reported); chi-squared statistics indicate that  $p < 0.0001$  in all models; marginal values are computed at variable means; marginals for dummy variables relate to the impact of a change from 0 to 1.

The data is from a structured survey of firms in England who Business Link assisted between April and October 2003. The sampling frame for the firms came from the 144,992 firms that Business Link Organizations (BLOs) assisted between April and October 2003. The numbers in the sampling frame were cross-checked against performance data provided by the BLOs to the government department that monitored them.

The telephone survey was structured and therefore used weighting to ensure the sample results were representative of the whole BL assisted group. For the analysis in this paper we were interested in the differences between those who received advice that built capabilities, those who received advice that used extant capabilities, and those who received both. This came to 1,337 companies (see Table 2). Only those with direct experience of business support would be able to comment on it, and typically one person in each company had this direct experience; consequently, a key informant approach was followed (Kumar, Stern and Anderson 1993).

The response rates to the survey differed amongst the target groups. Among the intensively assisted group<sup>2</sup> 44 per cent was achieved, among other assisted firms 36 per cent was achieved (Mole et al. 2008). These response rates are reasonable and higher than for many comparable studies (Chrisman et al. 2005, Ucbasaran, Westhead and Wright 2009). Taken together with the large samples the relatively high response rate gives us some confidence in the representativeness of the sample.

**Table 2: Sample Characteristics**

Variable	N	Mean	Std Dev	Min	Max
<b>Dependent Variable</b>					
Field	1337	.806	.914	0	2
<b>Firm Characteristics</b>					
Firm age 3-4 years	1337	.103	.304	0	1
Firm age: 4-5 years	1337	.067	.251	0	1
Firm age: 5-10 years	1337	.070	.254	0	1
Firm age: 10-20 years	1337	.184	.388	0	1
Firm age: 20 plus years	1337	.277	.448	0	1
Employment category	1337	1.800	.847	1	4
Limited liability	1337	.702	.457	0	1
Manufacturing	1337	.212	.409	0	1
Financial services	1337	.010	.102	0	1
Business services	1337	.254	.436	0	1
<b>Business Policy</b>					
Business planning	1337	.646	.478	0	1
Introducing new products	1337	.196	.397	0	1
Exports	1337	.277	.448	0	1
<b>BL Information</b>					
BL Mailshots	1337	.934	.248	0	1
BL Website	1337	.711	.453	0	1
BL referred by other business	1337	.146	.353	0	1

The sample was drawn from the total population of firms that had received advice. The telephone survey confirmed the use of BL's services. The overwhelming majority

<sup>2</sup> The study distinguished between intensive advice that involved, a diagnostic process, an action plan and a subsequent intervention versus non-intensive advice that is a simple response to a query.

(96.4%) of firms confirmed their use of BL services between April and September 2003. Similar initial questions to the non-assisted sample confirmed that they had not received assistance from BL and estimated any contamination. Of the non-assisted respondents, 13.8 per cent reported using BL as a source of advice or assistance at some point in the past, with the majority of these (92.4%) confirming that this BL assistance had been provided prior to the start of the reference period (i.e. before April 2003). The remaining 7.6 per cent were unable to be certain about the timing of the BL assistance they had received. The suggestion is, however, that the extent of any contamination of the non-assisted sample is low, and that they will therefore provide a valid control group. In the non-assisted group 43.1 per cent responded negatively when asked whether ‘they had ever heard of Business Link before this interview today’.

The estimation used a multinomial logit. This model extends a binary response to more than two unordered responses (Wooldridge 2002). As in the logit case, we are interested in how changes in the independent variables affect the response probabilities. The interpretation of the co-efficients is best done through differences in probabilities; for example how much would being referred by another business increase the likelihood of taking both types of advice for a 20 year old manufacturing company that was not introducing new products?

The models did not control for selection because previous modeling of the data using Heckman two-step models had shown little impact of the selection on the final outcome.

#### **Dependent variable**

Our dependent variable, field, concerned taking advice to build internal capability, defined as concerned with either quality, cost, ICT or R&D. The field was coded 1 if the type of advice was quality, cost, ICT or R&D. Of course, the business may take more than advice that builds capability, so field was coded 2 if the business took both (internal) advice that built capability and also advice that used extant capabilities. Table 2 provides the descriptive statistics for the dependent (and independent) variables.

### **Independent variables**

Our independent variables were three information variables that related to BL promotion and how clients discover BL. Table 1 showed that BL has the ability to target clients through mailshots (Mole et al. 2009, Mole et al. 2008). Our view that BL is a system that requires navigation is reflected in the three key ways in which clients found out about BL. The first was by receiving a mailshot. This has a large impact on the likelihood of a firm receiving BL advice (Mole et al. 2009, Mole et al. 2008). This is consistent with the idea that people take advice as a response to a specific problem, therefore they become heightened to sources of information (Mole and Keogh 2009). The second way in which small business owner- managers make contact with BL was through the website. In this they are more active as the client has to search for BL. Both direct mail and the BL website are types of information that is coded (Chrisman and McMullan 2004).

The third information variable relates to being referred to BL by another business. This variable captures word of mouth and tacit knowledge. This variable may imply greater knowledge of the particular problem encountered by firms; hence, it would be more specifically aimed towards a particular BL service. It is our conjecture that referrals will be more significant for internally focused business advice than for general assistance and that this demonstrates the way that owners use their tacit knowledge as agents to navigate their way around the system of business support.

### **Control Variables**

The first set of controls relate to three elements of firm characteristics. The first issue is the age of the firm. Previous work has shown that BL tends to work with younger than average firms (Mole et al., 2008). Younger businesses are more likely to take advice because they have less business experience (Chrisman et al. 2005). Business age was included as a series of age bands which enabled us to see the relationship over more of the age distribution. The youngest firms, those fewer than three years old, were left out of the estimation as the base case. Secondly, firm size is another factor that has often been related to the ability to take advice; larger firms have greater managerial resources (Greve 2008, Garcia-Quevedo and Mas-Verdu 2008, Iacobucci and Rosa 2010, McKelvie and

Wiklund 2010 , Robson and Bennett 2010, Brinckmann, Salomo and Gemuenden 2011, Lucas 1978). Very many studies link legal form to firm growth, as an empirical regularity without a convincing explanation of why it might be (Storey 1994).

The second set of controls relate to broad sectors with manufacturing, business services and financial services serving as dummy variables. Studies of business supports in the 1970s found it to be targeted on manufacturing businesses, since these were seen as more 'deserving of support', by both recipients and advisers (Greene, Mole and Storey 2008). Later work suggested that the business services sector received the largest share of business support as they dominated new business formation (Anyadike-Danes, Hart and O'Reilly 2005, Gohmann, Hobbs and McCrickard 2008). Broad sector definitions were included.

The third factor concerns three aspects of business policy. The first is management style. In this aspect, there have been a number of studies to link planning with business support. Those firms who both planned and gained Investors in People (IiP), a BL badged management practice, gained greater benefits, although in part this concerned the attitude of the management to planning (Fraser 2003, Kickul et al. 2009). Consequently, we might surmise that business planning would be associated with advice. In some previous work business planning has been instrumented to cope with potential endogeneity between planning and advice (Capelleras and Mole 2011); however, in this case there was no significant correlation between 'field' and business planning. Second, export propensity was included as a control as exporting may spur businesses to learn, fuelling a demand for advice (Burpitt and Rondinelli 2000). Moreover, exporting has been linked to the composition of boards of directors, which reflects advice given to the CEO, similar to a demand for advice (Gabrielsson 2007). Third, those bringing new products to market would encounter more problems, which suggests an increase in the demand for advice (Johnson, Webber and Thomas 2007); however, this would lead to a demand for external capability using advice (Branzei and Vertinsky 2006). Accordingly, we might expect this to lead to a reduced demand for our internal capability-enhancing advice.

## RESULTS

The models are reported in Table 3. There are two columns for each model representing the estimate for those taking advice that builds capability only (field=1) and those taking advice that both builds capabilities *and* advice that uses extant capabilities (field=2). Models 1 and 2 use the sample of 1,337 firms, models 3 and 4 are estimations that only examine a sub-sample of 752 firms who reported receiving ongoing assistance. In model 1 and model 3, we establish a baseline and then in models 2 and 4 the independent variables are introduced. All the models are significant.

There are three significant variables in the baseline equation (field=1): firm size, legal status, and business plans. These are consistently significant throughout the four models. The first is firm size, with smaller firms more likely to take advice. Next was the absence of limited liability which was linked to taking advice. Finally, the absence of a business plan was connected to the advice. This suggests that less capable firms are taking capabilities building advice. For those taking both types of advice (field=2) being a manufacturing firms had a positive effect. There are significant age effects with a u-shaped relationship, a similar but weaker relationship with limited liability status and a negative relationship between new product development and advice. These patterns are repeated across the sub-sample and are robust to including the independent variables.

The addition of the independent variables increased both the chi-squared value and the pseudo R-squared. As expected the role of referrals was significant to explain the taking of internal advice that built capability; however, it was actually more significant and influential when linked to both sorts of advice (field=2). the strongest influence of referrals was in column (4) 2, where for a 20 year old manufacturing firm that had not introduces a new product but had looked at the website, being referred increased the likelihood of taking both sets of advice by 29 per cent.

**Table 3: Multinomial Logit Estimation**

VARIABLES	(1)		(2)		(3)		(4)	
	1	2	1	2	1	2	1	2
BLrefer			0.533** (0.249)	0.877*** (0.174)			0.808** (0.334)	1.135*** (0.232)
BLmail			-0.193 (0.326)	0.139 (0.261)			-0.304 (0.403)	1.077*** (0.407)
BLweb			-0.432** (0.193)	-0.0369 (0.143)			-0.517* (0.269)	0.0605 (0.196)
empcat	-0.307*** (0.114)	-0.0365 (0.0749)	-0.299*** (0.115)	-0.0309 (0.0759)	-0.567*** (0.183)	-0.0467 (0.103)	-0.546*** (0.183)	-0.0348 (0.106)
expts	-0.0926 (0.235)	0.236 (0.147)	-0.0853 (0.237)	0.203 (0.149)	-0.522 (0.345)	0.319* (0.191)	-0.487 (0.347)	0.316 (0.197)
newprod	-0.369 (0.241)	-0.278* (0.156)	-0.391 (0.242)	-0.288* (0.157)	-0.425 (0.319)	-0.573*** (0.206)	-0.534* (0.325)	-0.613*** (0.212)
plan	-0.639*** (0.181)	0.0793 (0.132)	-0.607*** (0.182)	0.0814 (0.134)	-0.778*** (0.252)	0.00911 (0.177)	-0.715*** (0.257)	-0.0124 (0.181)
ldliab	-0.904*** (0.190)	-0.334** (0.143)	-0.829*** (0.193)	-0.300** (0.146)	-0.743*** (0.269)	-0.300 (0.200)	-0.677** (0.274)	-0.323 (0.205)
threefoursold	0.0480 (0.327)	0.646*** (0.223)	0.0798 (0.328)	0.663*** (0.226)	-0.300 (0.450)	0.649** (0.298)	-0.272 (0.453)	0.671** (0.306)
fourfivesold	0.0784 (0.371)	0.219 (0.270)	0.168 (0.373)	0.253 (0.272)	0.109 (0.490)	0.516 (0.359)	0.231 (0.496)	0.586 (0.366)
fivetenysold	0.194 (0.356)	0.199 (0.268)	0.262 (0.358)	0.216 (0.271)	-0.547 (0.549)	0.305 (0.329)	-0.422 (0.556)	0.436 (0.336)
tentwentyrsold	-0.336 (0.289)	0.329* (0.185)	-0.298 (0.291)	0.380** (0.187)	-0.769* (0.413)	0.233 (0.243)	-0.726* (0.421)	0.342 (0.249)
twentyrsplusold	0.280 (0.229)	0.517*** (0.164)	0.293 (0.231)	0.516*** (0.166)	0.177 (0.315)	0.518** (0.226)	0.241 (0.320)	0.541** (0.231)
mansec	-0.0241 (0.261)	0.425** (0.167)	-0.0180 (0.263)	0.465*** (0.169)	0.0286 (0.372)	0.546** (0.223)	0.107 (0.374)	0.602*** (0.229)
finsec	0.424 (0.849)	0.545 (0.589)	0.414 (0.858)	0.553 (0.596)	0.349 (1.233)	0.930 (0.749)	0.231 (1.252)	0.871 (0.767)
bussec	-0.296 (0.221)	-0.194 (0.151)	-0.253 (0.224)	-0.201 (0.154)	-0.322 (0.318)	-0.133 (0.198)	-0.208 (0.327)	-0.109 (0.204)
Constant	0.136 (0.278)	-0.566** (0.223)	0.417 (0.404)	-0.846** (0.337)	0.845** (0.394)	-0.396 (0.310)	1.150** (0.531)	-1.686*** (0.511)
Observations	1,337	1,337	1,337	1,337	752	752	752	752
Log likelihood	-1236		-1219		-683.3		-661.9	
Chi-squared	107.1		140.4		92.06		134.8	
Degrees of freedom	26		32		26		32	
Pseudo r2	0.0415		0.0544		0.0631		0.0924	

Standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

## DISCUSSION

The findings demonstrate the value of referrals to the uptake of BL advice that builds capability. In fact, referral was strongest when advice both built capability and used capability. Outside referrals are found to be favored for advice that includes some element of building capability. Referrals give reliable information about advice you can trust. There are two elements to trust (Sztompka 1999): one is impartiality, the other is expertise. A small business owner- manager may not take advice from a highly reputable firm of consultants not because she does not trust their expertise but because she does not trust their motives. Evidence suggested that BL motives were trusted; it was the expertise that was contested (Bennett and Robson 2004). When agencies deliver support that involves building capabilities; they are at the mercy of, ‘word of mouth’ marketing.

The study fills a gap in the business advice literature that previously only examines the entry into advisory services rather than the way in which firms access different types of business support (Garcia-Quevedo and Mas-Verdu 2008, Robson, Jack and Freel 2008, Johnson et al. 2007). Few studies show empirical regularities that point to the way firms navigate the system although many discuss the role of networking (Greve and Salaff 2003, Aldrich and Zimmer 1986, Jack et al. 2010, Anderson, Dodd and Jack 2010, Slotte-Kock and Coviello 2010, Phillipson, Gorton and Laschewski 2006). Programs do not simply allocate passive clients to the appropriate type of advice; clients are active knowledgeable agents who navigate through the system of business support.

Second, the study demonstrates a mechanism through which clients gain information that have strategic impacts on the business. Owner-managers used their network to gain specific types of support, contributing to our understanding of how social networks aid them. From the perspective of the intervention, peer-to-peer networks signposted their members to places where they could solve their particular problems: far from ‘crowding-out’ information from networks; Business Link was indebted to them. Moreover, the idea, suggested by some commentators, that there is a dichotomy between network approaches and policy interventions for small firm owner-managers as they seek business advice was

Commented [M1]: Consistency – UK or US spelling throughout?



undermined by our results (Commission et al. 1997, Ram and Smallbone 2003). This implies a cultural explanation of the adoption of internal management practices rather than the structural explanation favored by those who stress competition.

The cultural explanation differs from the structural in several ways. Cultural explanations involve the face-to-face networks that are a feature of local entrepreneurship contexts, contributing to an 'institutional thickness' or 'buzz' surrounding small firms (Gnyawali and Fogel 1994, Keeble et al. 1999, Storper and Venables 2004, Bathelt, Malmberg and Maskell 2004, Prashantham and Dhanaraj 2010, Terjesen and Elam 2009, Asheim, Coenen and Vang 2007, Audretsch and Keilbach 2007); whereas the structural emphasizes the impersonal market. The cultural pulls the small firm owner-managers to adopt a particular approach through word of mouth; the structural pushes them to solve a competitive problem. The latter requires a further search for acceptable solutions. The cultural approach requires social institutions where knowledge may be exchanged; the structural rests on economic and material elements. In the cultural approach adoption follows an epidemic (Feder and Umali 1993), where place is highly important. In the structural approach it is the market that matters which can be local but may be also international.

Some of the other control variables were intriguing. The relationship between internal advice, firm size, planning and limited liability status suggested that Business Link was building capacity in less well-organised firms that had fewer management practices: the 'long tail' of underperforming small companies (Bloom and Van Reenen 2010). This long-tail of underperforming companies is not new; indeed, it was part of the Commission on Public Policy and British Business in 1997 (Voss et al. 1995, Commission et al. 1997). The commission recommended that SME networks be strengthened; thus, they pinned their hopes on peer-to-peer learning as opposed to what they saw as standardised practices (Commission et al. 1997). However, most networks, and founding teams, are characterised by homophily (McPherson, Smith-Lovin and Cook 2001, Ruef, Aldrich and Carter 2003). Thus, poorly performing firms identified by researchers (Bloom and Van Reenen 2010, Voss et al. 1995, Commission et al. 1997)

network with other poorly performing firms; so, networks reinforce differences rather than ameliorate them (McPherson et al. 2001). In other words, poorly performing businesses may be overembedded (Uzzi 1997).

To break out of overembeddedness requires an intervention, either from the market through increased competition or through an agency such as the Business Link studied here.

### **Policy Implications**

Several policy implications flow from this study. In the first place, the important role of referrals for internal strategic change means that agencies need to focus on word-of-mouth marketing (Reichheld 2003). Thus, how customers react to business support services is critical in the business of capability enhancing and transforming businesses but perhaps less so in capability using advice (Branzei and Vertinsky 2006). Since policymakers value building capacity then the reputation of sources of advice is paramount; consequently, it might be wise to take steps that protect the reputation of advice and advisers (Mole and Bramley 2006). Mole (2011) found that BL managers spent more time trying to improve their resource dependent position than increasing their own capabilities. This brings up some fundamental questions such as whether the advisory system is open to all, whether the advisory system should be open to all, and whether those who eschew advice are making reasoned choices. For example, if highly sophisticated clients find that the private consultants serve their needs better this is not necessarily a bad thing, nor is it a failure of policy (Jones et al. 2008).

The policy implications from the study also relate to the different groups of firms that are receiving different types of advice - market segmentation. Direct mail campaigns are likely to be more effective for advice that uses extant capabilities, such as marketing or sales. In addition, firm characteristics are linked to different sort of advice within this category. Although a model of advice over time it is perhaps going too far, direct mail campaigns might focus on different firm characteristics. The types of firms receiving training advice, for example, are much older than those who receive marketing advice.

**For practitioners**

For practitioners, there are three implications of our findings. First, small firm owner-managers with less developed networks may find it harder to access the resources available to develop their capacity. The use of networks to develop capabilities re-iterates the dangers of overembeddedness for owner-managers (Uzzi 1997). Second, those charged with delivering the advice are strongly reminded of the importance of local reputation in the decision to seek advice. When owner-managers were considering the internal re-organization of their business word-of-mouth was vital (Armbruster and Glueckler 2007). Third, the different modes of initial connection linked to different types of advice. When Business Link re-organised to provide web-based advisory services this was likely to emphasize extant ability rather than the complex internal capability building advice. This leaves a gap for best practice interventions (Bloom and Van Reenen 2010, Done et al. 2011), where labor-intensive involving face-to-face intervention, referrals and may force us to think about where these interventions would produce greatest returns (Mole et al. 2011)

**Limitations**

This study concerned a cross-section of firms that accessed information concerning outside assistance. Whilst the modelling is significant and shows the comparative influence of the various ways to access advice, to establish more causal conditions it would be helpful to have longitudinal data such as panel data or case studies.

## CONCLUSION

This research compares how firms seek advice that builds capability such as IS and best practice interventions (BPI), and how they seek capability-using advice such as marketing advice. The paper argues that advice to small businesses that builds internal capability is risky for the adopting firm, placing greater requirements on the reliability of information surrounding these practices. To ensure that their information is reliable, we found firms to seek word-of-mouth referrals before taking internal, capability-enhancing advice.

While governments shifted advice onto the web, this was linked with less intensive advice that failed to build capabilities. In this case, communicating via the web reduced the changes envisaged by the firm.

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## Appendix Correlation matrix

	field	BLrefer	BLmail	BLweb	empcat	exprts	newprod	plan	ltdliab	threefouryr~d	fourfiveyr~d	fivetenyr~d	tentwenty~d	twentyyrsp~d	mansec	finsec
BLrefer	0.14															
BLmail	-0.01	-0.04														
BLweb	-0.02	-0.04	0.18													
empcat	-0.03	-0.02	0.01	0.01												
exprts	0.05	0.03	-0.01	0.06	0.06											
newprod	-0.04	0.01	0.00	-0.04	-0.03	0.11										
plan	-0.01	-0.01	0.02	0.09	0.13	0.01	0.05									
ltdliab	-0.06	-0.06	0.09	0.14	0.13	0.23	0.04	0.16								
threefouryr~d	0.05	0.01	-0.03	-0.01	-0.12	-0.06	0.04	-0.00	-0.05							
fourfiveyr~d	-0.01	-0.02	0.01	0.05	-0.08	-0.03	-0.02	0.01	0.02	-0.09						
fivetenyr~d	-0.02	-0.00	0.00	0.04	-0.07	-0.04	0.03	0.01	0.02	-0.09	-0.07					
tentwenty~d	-0.01	-0.04	-0.04	0.03	-0.05	0.00	-0.01	0.01	0.03	-0.16	-0.13	-0.13				
twentyyrsp~d	0.06	0.04	0.00	-0.02	0.01	0.01	0.00	-0.02	0.00	-0.21	-0.17	-0.17	-0.30			
mansec	0.08	-0.03	-0.03	-0.01	0.11	0.36	0.04	-0.00	0.17	-0.06	-0.02	-0.01	-0.08	-0.01		
finsec	0.02	-0.00	0.03	-0.01	-0.00	-0.01	0.02	0.03	0.00	0.01	-0.03	0.00	-0.01	0.00	-0.05	
bussec	-0.06	0.02	0.00	0.135	-0.04	-0.03	-0.03	0.01	0.04	0.03	0.06	0.04	0.09	-0.00	-0.30	-0.06